

Discussion DRAFT – For July 19 Finance Caucus Meeting

Objective 17 – Improve Integrated Water Management Finance Strategy and Investments

State government uses consistent, reliable and diverse funding mechanisms with an array of revenue sources to support statewide and regional IWM activities; and makes future State government investments in innovation and infrastructure (green and grey) based on an adaptive and regionally-appropriate prioritization process.

This objective and the related actions are based on collaboration involving several State agencies, advisory committees, topic-based caucuses (particularly the Update 2013 Finance Caucus), and other California Water Plan stakeholders who, together, developed a Finance Planning Framework, a new feature of the Water Plan. The financing framework provides a logical structure and sequence for financial plan development. The related actions in this section were developed to respond to, and leverage, the challenges and opportunities that emerged during the Update 2013 finance planning effort, as detailed Chapter 7 - “Finance Planning Framework.”

The scope of the related actions is limited to IWM programs and projects directly administered by the State, as well as future State IWM loans and grants that are distributed as incentives to regional and local governments. ***These actions are not intended to direct regional or local finance decisions; they also are not intended to modify existing State investment frameworks for ongoing financial activities, such as distribution of currently authorized G.O. bonds.*** While the actions include recommendations for enhancing the way the State invests in IWM (particularly the State 4I Fund described in Related Action #7), they do not include recommendations for new revenue sources.

These related actions are intended, in part, to incorporate the Shared Finance Values for State Investment and Prioritization into new State finance actions. These values were developed collaboratively through Update 2013 Finance Caucus and, in addition to guiding the development of the related actions below, are to be used for guiding IWM decisions regarding investment of State government funds. The Shared Values are described in Chapter 7, “Finance Planning Framework.” Another overlying purpose of the related actions is to increase the certainty that investments will achieve the intended benefits, improve the return on State investment, and enhance accountability by:

- Increasing the reliability, predictability, and levels of State IWM funding.
- Using competitive incentive programs to eliminate State funding earmarks.
- Increasing flexibility to reflect local and regional conditions and IMW goals and investment priorities.
- Providing proactive planning that avoids shovel readiness as a primary funding criterion.
- Providing an opportunity to coordinate future State IWM revenues sources. This will improve the ability to track cumulative impacts from the variety of existing State regulations, fees, and taxes on regional and local entities.

Related Actions	Performance Measures	Responsible / Lead Entity	Funding Status (Full, Partial, or Unfunded)	Legislation Required (X for Yes)	SME Notes & References to Related Update 2013 Sections/Chapters
<p>1. Regional and local entities should continue investing in IWM activities based on regional and local conditions, goals, priorities, and solutions.</p> <p>Reliable and effective water finance planning should continue at the regional and local levels in partnership with State government. Locally sponsored initiatives will continue to be a cost-effective approach for planning and implementing IWM innovation and infrastructure (green and grey) to provide multiple benefits to their respective jurisdictions. Regional and local investments should be augmented and amplified with State and federal public funding.</p>	<ul style="list-style-type: none"> Regional and local expenditures, using: a) investment categories defined in “IWM Activities” section of Chapter 7, and b) data from “Existing Funding (Component 3)” related action. Type and quality of IWM benefits produced, using benefit types defined in “IWM Scope and Outcomes” section of Chapter 7. 	Regional Water Management Groups, Cities, Counties, Water and Flood Districts, Resource Conservation Districts	Partial and often unreliable funding	No	
<p>2. State government should continue to provide incentives for regional IWM (IRWM) activities that achieve State goals and provide broad public benefits.</p> <p>This includes assisting regions technically and financially to implement their IRWM plans and/or help achieve State government goals and interests. State government should continue to enhance incentives for regional activities and invest in infrastructure (green and grey) that provides a public benefit <i>and</i> would not otherwise be cost effective.</p>	<ul style="list-style-type: none"> State government expenditures for regional and local incentives, using investment categories defined in “IWM Activities” section of Chapter 7. Type, location, and quantity of IWM benefits produced, using benefit types defined in “IWM 	DWR, SWRCB, DPH	Full — Funded through about 2017, when existing bonds will be fully allocated	Yes — new bond (also requires voter approval), new general fund appropriations, or other	

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	Scope and Outcomes” section of Chapter 7.				
3. State government should improve and facilitate access to State and federal public revenue sources. <ul style="list-style-type: none"> State government should develop a central online resource catalog to describe different funding programs, potential IWM revenue sources, and a how-to guide explaining how to apply for funding from these programs. State government should provide guidance and assistance to local agencies on how to apply for funding that includes technical and financial assistance, as well as grant application training for regions that do not have the capacity or resources to apply. 	<ul style="list-style-type: none"> Resource catalog developed and deployed? (Y or N) Training and assistance program developed and deployed? (Y or N) 	DWR	Unfunded	No	
4. The Governor and Legislature should broaden the ability of (and create guidelines and limitations for) public agencies to partner with private agencies for IWM investments.	New legislation developed? (Y or N)	DWR	Unfunded	Yes	Public-private partnerships (P3s) can: <ul style="list-style-type: none"> Provide ability to capitalize on innovative technologies. Help capitalize on potential private cost efficiencies. Offer renting and leasing finance strategies for public agencies.
5. State government should develop a more reliable, predictable, and diverse mix of finance mechanisms and revenue sources to continue to invest in IWM innovation activities and infrastructure that have broad public benefits, including, but not limited to, General Funds and General Obligation bonds.	<ul style="list-style-type: none"> Magnitude and variability of State funding over time, using a) the historical expenditure methods and (additional) data 	Governor and Legislature	Unfunded	Yes — new bond (also requires voter approval), new general fund appropriations, or other	

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<p>An important role of State government is to invest in innovation activities having broad public benefits that include improving State water governance, improving water planning and public engagement, investing in infrastructure (green and grey), strengthening government agency alignment, enhancing information technology (data and analytical tools), and advancing the use of water technology and science. These activities should be conducted in collaboration with the ongoing local and regional activities of this nature.</p> <p>Finance mechanisms used for these IWM innovation activities should:</p> <ul style="list-style-type: none"> • Improve cost effectiveness, efficiencies, and accountability. • Avoid stranded costs and funding discontinuity. • Leverage funding across State government agencies. • Increase certainty of desired outcomes. • Enable prioritization based on shared funding values, defined principles, goals, objectives, and criteria. 	<p>presented in Update 2013, and b) investment categories defined in “IWM Activities” section of Chapter 7.</p>				
<p>6. State government should reduce planning and implementation time frames and costs associated with IWM activities by clarifying, aligning, and reducing redundancies among State government agencies’ policies, incentive programs, and regulations.</p> <ul style="list-style-type: none"> • Convene an interagency IWM finance alignment group that includes State planning, resource management, and regulatory agencies to identify and implement finance policies, procedures, and protocols for the enhancement of State government transparency, accountability, flexibility, and cost efficiencies. This effort would recommend ways to reduce duplication and fragmentation among State government agencies’ policies, incentive programs, regulations, and budgets. 	<ul style="list-style-type: none"> • Level of collaboration with implementers and regulated entities regarding the project implementation climate throughout the state. 	<p>IWM Finance Alignment Group — DWR, SWRCB, CA Dept. of F&W</p>	<p>IWM Group — Unfunded</p>	<p>Develop IWM finance alignment group — No</p> <p>Implement IWM alignment group recommendations — Yes</p>	

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<ul style="list-style-type: none"> Develop the scope and methodology and prepare a <i>Return on State Government Investment</i> report card through the California Water Plan Update collaborative process (5-year interval) that would track the occurrence of benefits/value derived from State government investments (and leveraged local investments) by using specific criteria and sustainability indicators. 	<ul style="list-style-type: none"> ROI report card developed? (Y or N) 		ROI report card — Unfunded	ROI report card — No	
<p>7. State government should convene a task force to study the benefits and feasibility of establishing a State IWM Innovation and Infrastructure Investment Fund (State 4I Fund) that would provide a consistent IWM State water financing framework. The task force would include representatives from local, regional, State, tribal, and federal governments, as well as a broad set of stakeholders. See Chapter 7 – Finance Planning Framework for more about the State 4I Fund.</p> <p>By December 31, 2015, the State 4I Fund Task Force will submit a report to the Governor and Legislature describing alternatives and recommendations including, but not limited to:</p> <ul style="list-style-type: none"> Scope of State 4I Fund (e.g., proportion of total State IWM investment managed through State 4I Fund). Criteria for prioritizing and funding State government IWM innovation and infrastructure investments. Strategies to improve the transparency and accountability of State fund disbursements. 4I Fund governance that includes local and regional discretion and decision-making. Methods for enhancing stewardship of State government monies at both statewide and regional scales. How existing State and federal funding could be used to endow the Fund. 	<p>Taskforce established? (Y or N)</p> <p>4I Fund report prepared by December 31, 2015? (Y or N)</p>	DWR	Unfunded	<p>Taskforce formation — No</p> <p>Implementation of Taskforce recommendations — Yes</p>	

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<p>8. California Water Plan Update 2018 will enhance and refine the eight components of the Water Finance Storyboard, as described in the next steps section of Chapter 7, “Finance Planning Framework.”</p> <hr/> <p><i>Note: The information below pertains to the Update 2018 process and will be included in the “Next Steps” section of Chapter 7, “Finance Planning Framework.” It is provided below for discussion at the July 19 Finance Caucus meeting and will not be included in Chapter 8.</i></p> <p>Future work will cover each component of the framework in the following ways:</p> <ul style="list-style-type: none"> • IWM Scope and Outcomes (Component 1) — Revisit, clarify, and adapt the scope of integrated water management to changing conditions and priorities. • IWM Activities (Component 2) — Develop more specificity regarding the types of activities that State government should invest in with a clearer nexus to the types of anticipated benefits. • Existing Funding (Component 3) — Continue to compile and synthesize data that tracks historical water-related expenditures across local, State, and federal governments in California. • Funding Reliability (Component 4) — Work with the State Agency Steering Committee to identify where potential funding gaps exist between the State IWM activities described in component 2 and existing funding levels and sources. Collaborate with regional water management groups to do the same for local and regional IWM activities. • State Role and Partnerships (Component 5) — 		DWR	Partial — Existing Water Plan Program funding will have to be fully or partially redirected from other Water Plan activities.	No	

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<p>Continue to clarify and elaborate on the future role of State government to support a more specific description and estimate of future costs.</p> <ul style="list-style-type: none"> • Future Costs (Component 6) — Estimate future funding demands by (a) launching IRWM, city, county, and special district data pull; (b) work with State Agency Steering Committee to estimate the funding demand for existing and future IWM activities. • Funding, Who and How (Component 7) — Continue to develop a prioritization method and rationale for apportioning IWM investment by the categories and subcategories developed in the Update 2013 Finance Planning Framework (i.e., Innovation, Infrastructure). <ul style="list-style-type: none"> ○ State government will work together with local and federal agencies to develop criteria for State government investment prioritization. ○ Prioritization process will give equal regard for economic, environmental, and social criteria. ○ Review and adapt Shared Values for State IWM Investment to reflect changing State government and stakeholder priorities. ○ Develop geographical apportioning criteria for State government investment that is driven by resource management needs from California's upper watersheds to its near coastal areas. • Trade-Offs (Component 8) — State government should develop a decision support system (DSS) to provide guidance and leadership for defining uncertainties of future cost, benefits, prioritization, and other tradeoffs. The DSS would inform prioritization of State government expenditures, estimation of expected IWM benefits, and 					

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methods for apportioning costs across financiers. It also includes developing a clear and consistent methodology for identifying public benefits associated with the entire range of IWM activities.					